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Forms of Business Organisation: Advantages and Disadvantages of Sole Proprietorship

Advantages and Disadvantages of Sole Proprietorship

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Advantages

Easy to Form and Wind Up

- Easy and simple form of business organisation.
- No legal formalities are required to be observed.
- Business can be wind up any time if the proprietor so decides.

Quick Decision and Prompt Action

- Nobody interferes in the affairs of the sole proprietary organisation.
- So, quick decision can be taken.

Direct Motivation

- Entire profit of the business goes to the owner.
- Motivates the proprietor to work hard and run the business efficiently.

Flexibility in Operation

- Easy to effect changes as per the requirements of the business.
- Not require many formalities

Maintenance of Business Secrets

- Business secrets are known only to the proprietor.
- Not required to disclose any information.
- Not bound to publish his business accounts.

Personal Touch

- Easy to maintain a good personal contact with the customers and employees.
- Helps to run business smoothly.

Disadvantages

Limited Resources

- Not always possible to arrange sufficient funds.
- Proprietor has a limited capacity to raise funds for his business.

Lack of Continuity

- Illness, death or insolvency of the proprietor can lead to closure of the business.
- So, continuity of business is uncertain.

Unlimited Liability

Personal properties of the owner can also be used to meet the business obligations and debts.

Not Suitable for Large Scale Operations

Resources and the managerial ability are limited, so, not suitable for large-scale business.

Limited Managerial Expertise

A Single person may not be an expert in all fields like, purchasing, selling, financing etc.